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Trend in US labour cost growth still weak

US Macro – Unit labour costs grow at slowest pace since 2010 - Preliminary figures for labour productivity and unit labour costs in Q4 showed a modest reversal of the trend we have seen through most of 2017, with productivity flattish at -0.1% qoq annualised and unit labour costs rising 2%. However, quarterly numbers are often volatile, and for the year as a whole productivity grew 1.2% (2016: -0.1%), while unit labour costs grew just 0.2% (2016: 1.1%). The recovery in productivity meant this was the weakest unit labour cost growth since 2010. As we argued in our 2018 US Outlook (link here), strengthening prospects for investment suggest 2017's recovery in productivity growth could strengthen further into 2018. This was confirmed by today's ISM manufacturing index, which showed new orders continuing to grow at a pace close to a 14-year high. The ISM new orders index is a strong leading indicator for investment, with a lead typically of around 3-4 quarters. (Bill Diviney)

Euro Macro: German 6% wage demand not representative for eurozone wage growth – The largest German trade union IG Metall (representing workers in the metal and electrical industries) has demanded a 6% pay rise for 2018. On top of that, it wants workers to get the individual right to cut their working week from 35 to 28 hours. The latter demand met strong resistance from employers, who claim that they already face a shortage of labour currently. Consequently, the trade union organised a number of strikes earlier this week. Although IG Metall's demands were never fully met in the past, the current tightness of the German labour market means that the union might be able to get a pay rise that is around 70-80% of its demands, although there might be some trade-off between a pay rise and a reduction in working hours. That said, the current tightness in Germany's labour market is not representative for the eurozone as a whole. The majority of the other big eurozone countries still face significant slack in their markets, according to broader U6-definition. Indeed, Germany is the only of the big countries where total slack in the labour market has fallen well below the pre-crisis levels of 2007-08. Wage growth in Germany has been well above the rest of the eurozone since the start of 2010 and this is expected to continue in the coming years. Indeed, we expect wage growth in the eurozone as a whole to remain subdued this year and in 2019, although there might be some upward pressure, as higher headline inflation feeds through into higher pay settlements. Please find our full note on the subject here. (Aline Schuiling)

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